

ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2014 AND 2013

ZION RECOVERY SERVICES, INC.

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	4
Statements of Activities and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	12
Schedule of Expenditures by Activity	13
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	14
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	16
Schedule of Current Audit Findings and Questioned Costs	18

ZION RECOVERY SERVICES, INC.
Officials
June 30, 2014

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

Mark Wedemeyer, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Marker Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Casey, Iowa

Perry, Iowa

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Program Administrator:

Laurie Cooley

Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Zion Recovery Services, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2014 and 2013, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the Schedule of Expenditures by Activity on pages 12 and 13, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2014 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Zion Recovery Services, Inc.'s internal control over financial reporting and compliance.

Gmewoll, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
August 27, 2014

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 311,649	\$ 80,810
Certificates of deposit	275,501	274,564
Accounts receivable, less allowance for doubtful accounts (\$42,000 in 2014 and \$43,000 in 2013)	111,835	79,913
Grant receivables	17,005	64,606
Prepaid expense	<u>17,707</u>	<u>12,729</u>
Total current assets	733,697	512,622
Property and Equipment, Net	5,689	7,843
Other Asset:		
Investment in IBHN	<u>20,000</u>	<u>--</u>
Total assets	<u>\$ 759,386</u>	<u>\$ 520,465</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 7,600	\$ 17,822
Accrued employee compensation	51,905	24,953
Payroll taxes withheld and accrued	<u>4,341</u>	<u>7,731</u>
Total current liabilities	63,846	50,506
Net Assets:		
Unrestricted	<u>695,540</u>	<u>469,959</u>
Total liabilities and net assets	<u>\$ 759,386</u>	<u>\$ 520,465</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 907,327	\$ 874,783
Access to recovery	33,533	44,754
Prevention services	199,211	238,891
Donations	--	25
Total support	<u>1,140,071</u>	<u>1,158,453</u>
Revenue:		
Client fees, net	351,945	152,324
Medicaid fees	273,296	227,658
Interest income	1,046	1,292
Other revenues	59,790	66,536
Total revenue	<u>686,077</u>	<u>447,810</u>
Total Support and Revenue	1,826,148	1,606,263
Expenses:		
Salaries and wages	921,110	880,640
Employee benefits	295,006	311,674
Advertising and promotion	6,813	8,065
Provision for depreciation	3,136	4,912
Food costs	30,156	31,480
Insurance	13,731	13,454
Miscellaneous	11,765	10,134
Professional services	21,804	31,056
Rent	100,428	98,918
Repairs and maintenance	32,436	31,550
Supplies and other expense	89,914	103,312
Telephone	21,597	18,787
Training costs	8,492	9,646
Travel	38,082	34,690
Utilities	6,097	5,758
Total expenses	<u>1,600,567</u>	<u>1,594,076</u>
Increase in Unrestricted Net Assets	225,581	12,187
Net Assets at Beginning of Year	<u>469,959</u>	<u>457,772</u>
Net Assets at End of Year	<u>\$ 695,540</u>	<u>\$ 469,959</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 653,109	\$ 434,276
Contract funding received	1,187,672	1,099,770
Cash paid to suppliers and employees	(1,589,069)	(1,592,454)
Donations received	--	25
Interest received	<u>1,046</u>	<u>1,292</u>
Net cash provided by (used in) operating activities	252,758	(57,091)
Cash flows from investing activities:		
Capital expenditures	(982)	--
Redemption of certificates of deposit	--	47,115
Purchase of certificates of deposit	(937)	(1,245)
Purchase of investment	<u>(20,000)</u>	<u>--</u>
Net cash provided by (used in) investing activities	(21,919)	45,870
Net increase (decrease) in cash and cash equivalents	230,839	(11,221)
Cash and cash equivalents at beginning of year	<u>80,810</u>	<u>92,031</u>
Cash and cash equivalents at end of year	<u>\$ 311,649</u>	<u>\$ 80,810</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 225,581	\$ 12,187
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for depreciation	3,136	4,912
Changes in assets and liabilities		
Accounts receivable	15,679	(70,900)
Inventory	--	79
Prepaid expense	(4,978)	14,933
Accounts payable	(10,222)	(982)
Accrued employee compensation	26,952	(7,298)
Payroll taxes withheld and accrued	<u>(3,390)</u>	<u>(10,022)</u>
Total adjustments	27,177	(69,278)
Net cash provided by (used in) operating activities	<u>\$ 252,758</u>	<u>\$ (57,091)</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are \$123,563 for 2014 and \$145,136 for 2013.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

6. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - FAIR VALUE MEASUREMENTS

The Agency's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Agency, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2014 and 2013

NOTE B - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The investment in Iowa Behavioral Health Network (IBHN) will result in the Agency having access to a credentialing and billing and collections service. The investment in IBHN is not actively traded and significant other observable inputs are not available. The fair value of the investment in IBHN is based on book value. Management believes this value approximates current fair value.

The following tables set forth, by level within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2014:

		Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3)
<u>June 30, 2014</u>	<u>Fair Value</u>	
Investment in IBHN	\$ 20,000	\$ 20,000

The following tables reconcile the beginning and ending balances of fair value measurements for the Agency's level 3 assets using unobservable inputs for the years ended June 30, 2014:

<u>June 30, 2014</u>	
Beginning balance	\$ --
Investment in IBHN	<u>20,000</u>
Ending balance	<u>\$ 20,000</u>

NOTE C - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 50% of its total support and revenue through this contract for the year ended June 30, 2014 (54% for 2013). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2015 although the payment amount has not yet been determined.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2014 and 2013

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Leasehold Improvements	\$ 3,818	\$ 3,818
Equipment	<u>70,445</u>	<u>69,463</u>
	74,263	73,281
Less Accumulated Depreciation	<u>68,574</u>	<u>65,438</u>
	<u>\$ 5,689</u>	<u>\$ 7,843</u>

NOTE E - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2014</u>	<u>2013</u>
Outpatient and Residential Services	\$ 1,292,443	\$ 1,277,945
Management and General	<u>308,124</u>	<u>316,131</u>
	<u>\$ 1,600,567</u>	<u>\$ 1,594,076</u>

NOTE F - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Medicaid	18%	23%
Client accounts	<u>82</u>	<u>77</u>
	<u>100%</u>	<u>100%</u>

NOTE G - PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2014 and 2013

NOTE G - PENSION AND RETIREMENT BENEFITS - Continued

Plan members are required to contribute 5.95% of their annual covered salary and the Agency is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$79,500, \$76,600, and \$63,300, respectively, equal to the required contributions for each year.

NOTE H - LEASE OBLIGATIONS

The Agency has entered into agreements to lease office space under noncancellable operating leases with various lease terms. Lease payments under these agreements for the year ended June 30, 2014 were \$34,371 (\$34,161 in 2013). Future minimum payments under the agreements for the years subsequent to June 30, 2014 are as follows:

2015	\$	33,504
2016		33,756
2017		20,822
2018		<u>13,255</u>
	\$	<u>101,337</u>

The Agency also has entered into agreements to lease their residential care facility and other office space from various property owners on a month to month basis. Total lease expense associated with these leases was \$66,057 in 2014 (\$64,757 in 2013).

NOTE I - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Off-Balance Sheet Risk

The Agency maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in one of the banks exceeded the FDIC insured deposits limit for one entity (by approximately \$87,300 for the bank at year end). Management of the Agency has received no indication of any potential viability problems with the bank by the date of this report.

Subsequent Events

The Agency has evaluated all subsequent events through August 27, 2014, the date the financial statements were available to be issued.

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
U.S. Department of Health and Human Services:			
Indirect Program:			
Iowa Department of Public Health:			
Iowa Recovery Health Information Technology	93.243		\$ 21,578
Access to Recovery	93.275	5881AC32	33,533
Block Grants for Prevention and Treatment of Substance Abuse:			
Substance Abuse Prevention and Treatment Block Grant	93.959	122558-000	322,547
Prevention Services, Service Area 9	93.959		113,622
Prevention Services, Service Area 10	93.959		56,286
			<u>492,455</u>
			<u>\$ 547,566</u>

Basis of Presentation -The Schedule of Expenditures of Federal Awards includes the federal grant activity of Zion Recovery Services, Inc., and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

See accompanying independent auditor's report.

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

	2014					2013
	ATR & DUI Services	Outpatient Services	Residential Services	Prevention Services	Total	Total
Salaries and wages	\$ 3,900	\$ 547,437	\$ 238,113	\$ 131,660	\$ 921,110	\$ 880,640
Employee benefits	733	176,316	82,605	35,352	295,006	311,674
Advertising and promotion	--	5,784	1,029	--	6,813	8,065
Provision for depreciation	--	3,136	--	--	3,136	4,912
Food costs	--	--	30,156	--	30,156	31,480
Insurance	--	8,788	4,943	--	13,731	13,454
Miscellaneous	560	11,205	--	--	11,765	10,134
Professional services	--	12,331	9,473	--	21,804	31,056
Rent	--	83,628	16,800	--	100,428	98,918
Repairs and maintenance	--	24,764	7,672	--	32,436	31,550
Supplies and other expense	18,682	48,267	13,868	9,097	89,914	103,312
Telephone	--	17,662	3,935	--	21,597	18,787
Training costs	--	5,994	1,098	1,400	8,492	9,646
Travel	855	20,911	2,964	13,352	38,082	34,690
Utilities	--	6,097	--	--	6,097	5,758
	<u>\$ 24,730</u>	<u>\$ 972,320</u>	<u>\$ 412,656</u>	<u>\$ 190,861</u>	<u>\$1,600,567</u>	<u>\$1,594,076</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the financial statements of Zion Recovery Services, Inc. as of and for the year ended June 30, 2014, and have issued our report thereon dated August 27, 2014. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Zion Recovery Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Zion Recovery Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors
Zion Recovery Services, Inc.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Current Audit Findings and Questioned Costs as item 14-II-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Zion Recovery Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Response to Finding

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Zion Recovery Services, Inc. and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gmewoll, Ben, Kyhn & W.P.C.

Atlantic, Iowa
August 27, 2014

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

Report on Compliance for Major Federal Program

We have audited the Zion Recovery Services, Inc. compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2014. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Agency's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major program. However, our audit does not provide a legal determination on the Agency's compliance.

To the Board of Directors
Zion Recovery Services, Inc.

Opinion on Each Major Federal Program

In our opinion, Zion Recovery Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Zion Recovery Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Zion Recovery Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

G. Mewohl, Ben, Kynan & G.P.C.

Atlantic, Iowa
August 27, 2014

ZION RECOVERY SERVICES, INC.

Schedule of Current Audit Findings and Questioned Costs

Year ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

Financial Statements

- (a) Type of auditor's report issued:
- Unmodified.
- (b) Internal control over financial reporting:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (c) Noncompliance material to financial statements noted? yes X no

Federal Awards

- (d) Internal control over major program:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? yes X none reported
- (e) Type of auditor's report issued on compliance for major program:
- Unmodified.
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133? yes X no
- (g) Identification of major program:
- CFDA Number 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (i) Auditee qualified as low-risk auditee? yes X no

ZION RECOVERY SERVICES, INC.

Schedule of Current Audit Findings and Questioned Costs

Year ended June 30, 2014

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

14-II-A Segregation of Duties: One person has the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. However, this is not uncommon for businesses of this size.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

No matters were reported.

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